

New Empowerment Zones and Enterprise Communities Named

Means Tax Incentives For Many Businesses

A wide range of incentives are available for business owners operating in economically distressed areas, including areas designated as Empowerment Zones (EZ) and Enterprise Communities (EC). You can see if you qualify by getting IRS Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities*. It provides the location of EZs and ECs and information on the various incentives that are available.

Examples of benefits to businesses under this program include:

Empowerment Zone Employment Credit—Provides businesses with an incentive to hire individuals who both live and work in an Empowerment Zone. The credit can be up to \$3000 per qualified zone employee each year.

Increased Deduction for Depreciation—Section 179 of the Internal Revenue Code allows you to choose to deduct all or part of the cost of certain qualifying property in the year you place it in service. You can do this instead of recovering the cost by deductions over a specified recovery period, but there are limits on the amount you can deduct in a tax year.

Tax-Exempt Bond Financing—State or local governments can issue Enterprise Zone facility bonds to raise funds to provide an Enter-

prise Zone Business with a qualified zone property.

Environmental Cleanup Cost Deduction—This deduction provides businesses with an incentive to clean up certainties that are contaminated with hazardous substances. Your business does not have to be in an EZ or EC to qualify for this deduction.

Work Opportunity Credit—Provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment rate or other special employment needs.

These are just some examples of benefits to EZ and EC businesses. To learn more about the EZ/EC program and to see if your business might be eligible, review Publication 594, *Tax Incentives for Empowerment Zones and other Distressed Communities*. You can order IRS forms and publications by calling 800-829-3676, or you may download them through the IRS Internet site, www.irs.ustreas.gov. And don't forget to check out the website, www.ecez.gov, for even more information.

The Community Empowerment Program became law in August 1993. To be eligible, communities had to have high rates of poverty. The first three EZs and 30 ECs were named in late 1994. By 1998, they had already compiled an impressive record of

achievement, including 10,000 jobs created or saved, 14,000 workers trained, 25,000 youth served and 102 water or waste treatment systems under construction.

On January 13, Vice President Al Gore announced the second round of selections for EC/EZ designation. Five new EZs and 20 new ECs were selected.

HUD has designated parts of the following cities as Urban Empowerment Zones effective December 31, 1998:

Boston, MA; Cincinnati, OH; Columbia/Sumter, SC; Columbus, OH; Cumberland County, NJ; El Paso, TX; Gary/East Chicago, IN; Huntington, WV/Ironton, OH; Knoxville/Knox County, TN; Miami/Miami-Dade County, FL; Minneapolis, MN; New Haven, CT; Norfolk/Portsmouth, VA; Santa Ana, CA; St. Louis, MO

Effective January 1, 2000: Cleveland, OH; Los Angeles, CA

USDA has designated the following Rural Empowerment Zones effective December 31, 1998:

Desert Communities Empowerment Zone, CA; Griggs-Steele County Empowerment Zone, ND; Oglala Sioux Tribe Empowerment Zone, SD; Southernmost Illinois Delta Empowerment Zone, IL and Southwest Georgia United Empowerment Zone, GA —IRS

Advance EITC Means More Money In Your Employees' Pay!

The Earned Income Tax Credit (EITC) is available to workers whose earned income is below a certain level. There are two ways to receive this credit. Employees can get a lump sum tax refund next year, or every payday, through Advance EITC. An employee who expects to earn less than \$26,928 in 1999, and has a

qualifying child, can receive AEITC in his or her take-home pay now.

It's easy for your employees to start getting the AEITC credit in their pay. All they have to do is complete Form W-5, Earned Income Credit Advance Payment Certificate.

Note: Employers do not use their own funds to make advance EITC payments. They are paid from withheld employment taxes. See IRS Publication 15, *Employer's Tax Guide (Circular E)*, for more information. —IRS

Employer Service Liaison Officers Help Employers

Need help in answering that tough wage reporting question or solving a stubborn W-2 issue?

Help may be closer than you think. Stationed in each of Social Security's (SSA's) regional offices are expert staff ready to answer your questions, or solve any technical wage reporting problem. They're called Employer Service Liaison Officers (formerly Regional Magnetic Media Coordinators). According to SSA's Norm Goldstein, "the new title is much more than a name change." It reflects SSA's renewed recognition of the employer/payroll community as vital customers and brings all the liaison officers under a common umbrella—ensuring consistent and reliable service across the country.

The liaison officers have worked for years in the annual wage-reporting arena. However, in 1987 they began to work directly with the employer community after the Congress changed the law and required all employers with 250 or more employees (formerly 500 employees), to report W-2s to SSA via magnetic media. At the same time, employers expressed to SSA their frustration about getting the answers they needed to meet their wage reporting obligations. SSA responded to the employer community in several ways. First and foremost, the role of the liaison officer was expanded to reach not only magnetic media filers but all employers with the wage reporting help they needed.

The liaison officers often find themselves serving as a "translator" between government customers and SSA; helping employers understand annual wage reporting requirements. They accomplish their task through a myriad of activities including working with individual employers, speaking at local payroll organization chapter meetings, attending ser-

vice bureau conferences, and conducting end-of-year workshops/seminars just to name a few. Some of the liaison officers have additional staff stationed in field offices within their region.

The liaison officers are also a great resource if you have technical questions about upcoming changes in reporting requirements. For example, SSA is preparing to transition magnetic media filers from the Technical Information Bulletin (TIB) 4, 5, 6 & 7 format to the new Magnetic Media Reporting and Electronic Filing Specifications (MMREF). All magnetic media filers are required to switch to the new reporting requirements by tax year 2001 (W-2s due to SSA January - February 2002). As magnetic media and electronic filers begin this transition, remember, the liaison officers are available to help with technical questions.

When asked what types of problems the liaison officers typically help employers resolve, the answers varied and were frequently unique to their specific area of the country. However, one problem they frequently help to resolve is duplicate reporting. Duplicate reporting occurs in a number of different scenarios, but most often occurs when an employer changes payroll service providers mid-year. The previous provider reports for the time they serviced the employer, and the new provider reports for the entire year (instead of reporting only for the time they serviced the employer). Duplicate reporting causes major reconciliation problems for the employer when SSA matches wages reported on W-2s with taxes paid to IRS on Form 941.

This happened to a major east coast employer when a duplicate reporting error caused reconciliation letters to be generated for each of their 140 stores. However, the employer stated, "one phone call to our liaison officer and SSA was able to make internal adjust-

ments to resolve the issue." "It was phenomenal service", said the employer, "saving the company time and money because we didn't have to file W-2cs".

Employers should remember, if they have a general wage reporting question or need to request information about employer services or publications, they can call the toll-free employer hotline, 800-772-6270, weekdays from 7 am to 7 pm Eastern Standard Time. Call the hotline for the telephone number of the liaison officer serving your state or look under "How to Reach Us" on our Employer Web Page, www.ssa.gov/employer_info.
—SSA

Third-Party Magnetic Media Submitters

Avoid Common Error—and potential "non-Filing" Penalties

SSA has identified a frequent reporting error made by third-party preparers who submit annual wage reports (Forms W-2/W-3) on magnetic media.

When reporting W-2s on magnetic media, the third-party preparer's Employer Identification Number (EIN) should be entered in the Code "A"—Transmitter Record and the Employer's EIN should be entered in the "E" Record. A common error occurs when the third-party preparer's software propagates the submitter EIN into the "E" record or the preparer manually enters the submitter's EIN in all the "E" records. This results in SSA wage and tax data reconciliation notices to all the affected employers, as SSA's records show "no report" for each of the affected employers.

SSA asks that third-party submitters make sure that the employer's EIN is entered in the "E" record, thus avoiding additional time and cost associated with the reconciliation process and the potential of returned submissions in the future. —SSA

Early Retirement Can Affect Social Security Benefits

Early retirement has become increasingly popular in recent years. Some early retirements are the result of company downsizing. Others may occur because the worker simply wants to enjoy more leisure time or pursue a hobby. Whatever the reason for leaving the workforce earlier than the usual retirement age, it can affect the amount of the worker's Social Security retirement benefits.

Employers often get questions from workers who leave the workplace before they reach the age when they can begin receiving Social Security benefits. While each case will differ because of the person's age and earnings history, there is some basic information the employee should know before making his or her decision. First, he or she needs to know how we calculate the benefits. Social Security benefits are based on a person's earnings averaged over 35 years of his or her working lifetime. We adjust the worker's actual earnings to account for changes in average wages since the year the earnings were received. Then we calculate the average monthly-adjusted earnings during the 35 years in which the worker earned the most money. Benefits are not, as some people think, based on the last five years of a person's employment.

Unfortunately, some people also think that once they have earned 40 credits (formerly known as quarters of coverage), they are then eligible for the maximum Social Security benefit. That's not true. Earning 40 credits makes a person eligible for retirement benefits at a certain age; it has nothing to do with the amount of his or her benefits. Social Security uses the formula described above to calculate the amount of the retirement benefit.

Sometimes people ask, "Will I be penalized if I retire early?" No, the worker won't be penalized; but, be-

cause Social Security looks at the highest 35 years of earnings, the worker will have less opportunity to replace years of lower earnings with years of higher earnings. This could reduce the amount of the monthly benefits.

And now a few words about the retirement age. Workers can retire as early as 62 with a reduction in benefits. The full retirement age for people born before 1938 is 65. Because of a change in the law, the full retirement age for people born after 1938 increases until it reaches 67 for persons born in 1960 or later.

More information about how retirement benefits are figured is available by calling or visiting a local Social Security office or calling this toll-free number, 800-772-1213. Ask for this factsheet, *Social Security, How Your Retirement Benefit is Figured*. The factsheet also is available on our website, www.ssa.gov. — SSA

Diskettes (5 1/4-Inch) Eliminated for AWR Filing

SSA will no longer accept annual wage reports (Forms W-3/W-2) filed on 5 1/4-inch diskettes effective tax year 2000 (for W-2s due in calendar year 2001). SSA previously announced the elimination of 8-inch diskettes beginning tax year 1999. Both the 5 1/4 and 8 inch diskettes are being eliminated to simplify the diskette reporting process and achieve a more efficient program for SSA, employers and the payroll community.

Employers or third-party preparers who currently file on 5 1/4 inch diskettes are encouraged to file via electronic data transmission using the Online Wage Reporting Bulletin Board Service (OWRBBS), 3 1/2 inch diskettes, 1/2 inch magnetic tape, 3480 cartridge or 3490 cartridge.

In addition, SSA encourages employers and the payroll community to change to the new magnetic media and electronic filing specifications. The new specifications, Magnetic Media Reporting and

Electronic Filing (MMREF-1) replaces the Technical Information Bulletins 4, 5, 6 and 7. All magnetic media and electronic filers are required to change to the new reporting format for tax year 2001 wage reports (W-2's due in calendar year 2002). More information about MMREF-1 and the OWRBBS is available on SSA's web site for employers, www.ssa.gov/employer_info. —SSA

Seminars Offer Info About TIP Reporting

The IRS Tip Rate Determination and Education Program is providing educational seminars at beauty industry trade and association meetings and shows. Our goal is to improve tip reporting in this industry, and to increase contributions to FICA and Medicare.

If an employee receives twenty or more dollars in tips during a month, it must be reported to the employer to be included as wages in the worker's income.

Additionally, issues involving beauty industry workers who classify themselves as booth renters or independent contractors are being addressed to be sure they understand their income and information reporting responsibilities.

By improving reporting of this income on Schedule C of Form 1040, U.S. Individual Income Tax Return, there is improved reporting of Self-Employment Tax. Beauty shop owners should file a Form 1099 with the IRS when they make payments in excess of \$600 per year to independent contractors and booth renters should file Form 1099 for rent they pay to non-corporate salon owners.

Contact the Tip Coordinator at your local IRS office or call 800-829-3676 to get the "Tips on Tips" brochure (employer and employee versions) plus Publication 531, *Reporting Tip Income*. —IRS



Big Growth in 941e-file

Make your Employment Taxes Less Taxing

For Tax Year 1998, more than one million Form 941, *Employers Quarterly Federal Tax Returns*, were processed via 941e-file, representing a 68% increase over last year. The IRS wants more businesses to opt for the ease and convenience of filing their Form 941 electronically.

If your business is a payroll processing company responsible for filing the Form 941, *Employer's Quarterly Federal Tax Return*, or if you file returns for other businesses, you may want to utilize 941e-file. The 941e-file Program is available to any business or Reporting Agent which files 10 or more returns for themselves and/or other businesses, and to software developers.

Participants may purchase off-the-shelf Electronic Data Interchange (EDI) translation software and Form 941 EDI preparation software, or they may develop their own software.

To file the Form 941, *Employer's Quarterly Federal Tax Return* electronically, an application must be submitted as required by Revenue Procedure 97-47.

In addition, applicants must obtain Publication 1855, *Techni-*

cal Specification Guide for the Electronic Filing of Form 941, *Employers Quarterly Federal Tax Return*. Applicants must agree to transmit an initial electronic transmission (known as a test file) which must be completed by the test file due date preceding the corresponding quarter's due date. The IRS will notify each applicant in writing regarding approval or denial of their application.

The 941e-file Program conducts security checks, sends electronic acknowledgments and builds records to be processed by current IRS computer systems. When you file using 941e-file, returns are processed quickly and accurately. An acknowledgment record is placed into the originator's mailbox within 48 hours of receipt and processing time is reduced to one week. The 941e-file program accepts all balance due returns and uses a paperless signature alternative. Currently, returns are being accepted for each quarter of the current tax year, and for any quarter of the prior tax year. However, amended and corrected returns are not accepted for e-file. —IRS

The Taxation of Alien Employees in the United States

Special Considerations Apply

United States immigration laws address immigrants, nonimmigrants, and illegal aliens. But the tax laws speak only of resident aliens and non-resident aliens, and the tax withholding requirements are different for each. Generally, resident aliens are taxed in the same manner as citizens, including taxation on their worldwide income. Nonresident aliens are taxed only on their US-sourced income according to special rules contained in certain parts of the Internal Revenue Code (IRC). The tax residency rules are found in IRC section 7701(b) and include a "substantial presence test" that must be applied to determine the proper alien status.

Under the residency rules of the IRC, even an alien who is in the United States illegally under the immigration laws but who passes the substantial presence test will be treated, for tax purposes, as a resident alien.

An employer who hires an illegal alien could be subject to various fines, penalties, and sanctions under the immigration laws of the United States. If the employer ignores these risks and hires an illegal alien, the employer must report and withhold taxes in accordance with the general rules discussed in this article. The employer must determine if the illegal alien should be treated as a resident or non-resident alien, and treat them accordingly for tax purposes.

Publication 519, *U.S. Tax Guide for Aliens* discusses the application of the tax residency rules to aliens, and IRS Publication 515, *Withholding of Tax on Nonresident Aliens and Foreign Corporations* discusses the reporting and withholding requirements for payments made to nonresident aliens and foreign corporations. —IRS

